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1 RECORD OF ORAL HEARING
2
3 UNITED STATES PATENT AND TRADEMARK OFFICE
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6 BEFORE THE BOARD OF PATENT APPEALS
7 AND INTERFERENCES
8
9

10 *Ex parte* STEVEN M. BLOOM, MICHAEL S. SPECTOR, and
11 JOHN L. JACOBS
12

13
14 Appeal No. 2009-010984
15 Application No. 10/001,900
16 Technology Center 3690
17

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19 Oral Hearing Held: January 7, 2010
20
21

22 Before HUBERT C. LORIN, ANTON W. FETTING, and
23 BIBHU R. MOHANTY, *Administrative Patent Judges*.
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27 ON BEHALF OF THE APPELLANT:

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1 The above-entitled matter came on for hearing on Thursday, January
2 7, 2009, commencing at 1:00pm., at the U.S. Patent and Trademark Office,
3 600 Dulany Street, Alexandria, Virginia, before Paula Lowery, Notary
4 Public.

5 THE CLERK: Good morning. Calendar Number 8, Mr. Maloney.

6 JUDGE LORIN: Good afternoon, Counsel.

7 MR. MALONEY: Good afternoon. Mr. Denis Maloney. I'm here for
8 hearing on 010984.

9 JUDGE LORIN: Counsel, could you spell your name, please?

10 MR. MALONEY: M-a-l-o-n-e-y, first name Denis with one "n".

11 JUDGE LORIN: Thank you, Counsel.

12 The panel today consists of Judge Fetting, F-e-t-t-i-n-g, Judge Mohanty, M-
13 o-h-a-n-t-y, and I'm the presiding judge, Judge Lorin, L-o-r-i-n.

14 We've reviewed the record in Appeal No. 2009-010984. You have 20
15 minutes. You may proceed.

16 MR. MALONEY: Thank you. In this appeal there are two issues
17 remaining. One is a 112 second paragraph issue, and there's a prior art issue.
18 I'd like to deal with the prior art issue first; and, if time permits, deal with the
19 112 issue.

20 JUDGE LORIN: That's fine.

21 MR. MALONEY: The Examiner has cited two references: Gastineau,
22 which is a published U.S. application that I happen to have written for the
23 American Stock Exchange; and a reference from a trade publication by
24 Strauss. Gastineau is cited for the first feature of Claim 1, namely the feature
25 of a recording by a computer, delivery by a market participant to an agent
26 for a first fund of a creation unit basket of securities, having a creation unit

1 basis that is substantially the same as the creation unit basis for a second
2 fund that's traded on a second marketplace in a second, different country
3 than that of the first fund. So that, in fact, is not at all suggested, much less
4 described, in Gastineau. What Gastineau describes in Paragraphs 1 through
5 4, which is where it's relied upon by the Examiner, is what's called a spider.
6 That is a depository receipt that's based upon the S&P 500 Index.

7 That particular spider is traded in the United States on the American Stock
8 Exchange. It's based on a trust that's in the United States, uses a United
9 States based index, the S&P 500 Index, and has a net asset value that's
10 calculated after the close of trading in New York. Our position is that
11 Gastineau only describes the second fund that's in Claim 1. Gastineau does
12 not describe a first fund as a creation unit basis the same as the basis of the
13 second fund. So, in essence, this invention would allow the S&P 500 spider
14 to be also traded in Europe, for example, and have those shares that are
15 traded in Europe be arbitragable to shares that are traded in New York.

16 It's accomplished by two mechanisms, one of which is recited in Claim 1,
17 the other of which is recited in Claim 2. We actually have a patent that's
18 already been cited to the Examiner in this case on that particular feature.

19 What this particular patent application, as well as the application at the
20 second hearing today, is really discussing is how you handle cash that has to
21 be exchanged to make the basket of securities correspond to the net asset
22 value of the bulk of the shares that are created when you go through a
23 creation or redemption of this type of product. Traditionally, as described in
24 Strauss, cash is simply exchanged to make up for these little differences.

25 However, in this particular case, as well as the other case, rather than

1 exchanging cash, the agent, if you will, can exchange with the participant
2 shares in the second fund.

3 In other words, the fund that is not being created but the fund that has
4 already been created that the first fund is trying to emulate. In the other
5 case, which I will get to later, that's been expanded a little bit.

6 But Strauss, which has been cited for that particular teaching, does not have,
7 in fact, this concept. Rather than exchanging cash, you exchange the shares
8 from the second fund. Are there any questions so far?

9 JUDGE LORIN: No, not yet, Counsel.

10 MR. MALONEY: So that is, in essence, the significant features of Claim 1.

11 JUDGE LORIN: Okay, Counsel, let me stop you. I understand your
12 position regarding the difference between what's claimed in Claim 1 and
13 what's in the prior art. Do you want to speak to the Examiner's discussion
14 about nonfunctional descriptive material?

15 MR. MALONEY: Sure. That kind of gets to -- I'm not aware of any case
16 law that supports a rejection on nonfunctional descriptive material and
17 ignoring these types of recitations under 112 second paragraph.

18 It seems to me that was something that was argued by the Examiner in In re
19 Lowery under a 101 rejection, which the Board found that case dismissed.
20 The Board then just tried to apply -- it was called a printed mater rejection to
21 that type of language, and the Federal Circuit reversed the Board on that
22 matter. So I'm not aware of any cases in which a 112 second paragraph is
23 used to ignore so-called nonfunctional descriptive material.

24 JUDGE LORIN: Counsel, let me stop you for a second.

25 MR. MALONEY: Sure.

26 JUDGE LORIN: We've been discussing the prior art rejection of 103.

1 MR. MALONEY: Right.

2 JUDGE LORIN: I understand your position about the differences between
3 what you've claimed and what's in the prior art.

4 MR. MALONEY: Right.

5 JUDGE LORIN: But the Examiner responded to your argument about those
6 differences -- under 103, not the 112 -- that that limitation involving this
7 cash, using the shares of the second fund in lieu of cash, that that amounted
8 to nonfunctional descriptive material.

9 MR. MALONEY: First of all, that was the first time we ever heard the
10 Examiner say that, number one. More importantly, it seems to me that if we
11 go back and look at the 112 second paragraph rejection, the Examiner is
12 making exactly the opposite contentions in that the Examiner is asking us in
13 the 112 second paragraph rejection to set forth in the claims why and when a
14 cash amount would be owed, how the cash amount would be owed, and how
15 it's calculated. So on the one hand when he talks about 112, he wants those
16 limitations in the claim -- I'm sorry, she wants those limitations in the claim;
17 but when we're talking about 103, she wants to ignore those type of
18 limitations. She can't have it both ways.

19 JUDGE LORIN: Counsel, the problem here is one of claim construction.
20 Setting aside the 112 second, setting that aside -- I know you'll get to that
21 later.

22 MR. MALONEY: Right.

23 JUDGE LORIN: Under 103 what you have here is a method and two steps.
24 Both steps involve recording by the computer.

25 MR. MALONEY: Right.

1 JUDGE LORIN: I think what the Examiner is saying is all you have here is
2 recording two events. That the computer is recording two events.

3 MR. MALONEY: Right.

4 JUDGE LORIN: Those events are represented by information, and from the
5 Examiner's point of view, you're recording information about particular
6 events by the computer. That distinction in terms of the information
7 between what you're recording and the information recorded by the
8 computer in the prior art, that distinction is nonfunctional descriptive
9 material.

10 MR. MALONEY: Okay. Well --

11 JUDGE LORIN: The Examiner is asking what is the difference between the
12 information you're recording by the computer and information the prior art is
13 recording?

14 MR. MALONEY: That did not come through, but I'm glad you explained
15 that to me. I can answer that quite succinctly. The difference between what
16 Gastineau and Strauss would be recording and what Claim 1 is recording is
17 that Claim 1 is reciting the two steps that are necessary to actually produce
18 these shares in this new type of fund. So in the securities industry, all these
19 so-called transactions involve data manipulation and recordation done by
20 computers. This is exactly how this particular fund is produced. In other
21 words, someone will deliver a basket of securities to an agent, and generally
22 that basket is delivered via messages on a computer. The computer in Claim
23 1 records the receipt of this basket of securities and records the amount of
24 cash that needs to be determined in order to make those securities, along
25 with the shares that are going to be issued in the first fund, equate to the
26 asset value of that first fund.

1 So that is exactly how these instruments are produced.

2 JUDGE LORIN: So if I understand you --

3 MR. MALONEY: And those are all functional limitations. We're not
4 talking about music. We're not talking about, you know, a book. We're
5 talking about data that's manipulated by a computer to produce something.
6 To transform, if you will, this message that has a creation-unit basis
7 securities plus cash into a set of shares of a first fund that has a particular
8 relationship with a second fund.

9 JUDGE LORIN: Counsel, my understanding of this claim is that you have
10 two steps of a computer recording an event.

11 MR. MALONEY: Right.

12 JUDGE LORIN: If I understand you correctly, your position is that these
13 events necessarily must occur before the computer can record them, is that
14 correct?

15 MR. MALONEY: These events occur before the computer records them. I
16 believe that's correct, sure. So, for example, if you're saying received
17 delivery of a basket of securities, well, we could add more steps to this
18 claim; but it doesn't change the scope of the claim. It maybe obfuscates a
19 little bit what the invention is. One of the things the Examiner was
20 complaining about had to do with this calculation of net asset value. You
21 know, the problem with adding that into the claim is that the net asset value
22 of these funds would not necessarily be calculated by the person who was
23 making these instruments. So if we would add that limitation into some of
24 these claims, we would have a situation where you would need to have two
25 different people perform these steps in order for the claim to be infringed.
26 There'd be no direct infringer.

1 JUDGE LORIN: That's a separate argument that comes up in some of the
2 dependent claims. My concern only is the way this claim is construed.

3 MR. MALONEY: Okay.

4 JUDGE LORIN: I see the Examiner construing this claim as simply a
5 computer recording some information, but I think your argument -- and that
6 does come out in the Reply Brief -- is that you're recording an event that
7 must necessarily occur. If the prior art doesn't show that event, then the
8 computer cannot record it.

9 MR. MALONEY: That's correct.

10 JUDGE LORIN: That's a little different than what the Examiner seems to be
11 arguing. That it doesn't matter what the event is, the event is represented by
12 information, and the computer is recording it. So this is really a question of
13 claim construction. You're construing the claim in a certain way that
14 requires delivery of the securities and a return of securities for the cash.
15 That is not shown in the prior art.

16 MR. MALONEY: That is correct. So putting it another way, if the creation
17 unit of securities was, in fact, not delivered in a message to the computer,
18 there'd be nothing to record. The computer is still going to go through a
19 determination to record -- to determine the amount of cash, and record the
20 fact that no cash will be exchanged if it turns out those securities exactly
21 equate to the net asset value of the fund. So even though what might be
22 recorded in some rare instances is zero, that is still going to be recorded.
23 Then if we get to Claim 2, we actually have the step of calculating by the
24 computer system the amount of cash needed to be exchanged between the
25 agent and participant had those funds equated to the net asset value of the
26 second fund at the close of trading. So this gets into two other aspects, if you

1 will, of this invention. That is -- actually, one additional aspect of the
2 invention. That is the net asset value of a second fund governs the net asset
3 value of the first fund. So, you know, that completely makes this thing
4 arbitragable. In other words, what happened in the original application that's
5 now issued into a patent is you had this concept of a financial product.

6 You could have the S&P 500 spider being traded in Europe, but rather than
7 the net asset value of that spider being calculated after the European markets
8 close, it would be calculated after the U.S. markets close, which is when the
9 value of the original spider is being calculated. That means that both those
10 things can be arbitrated against each other. So if you find that the spider in
11 Europe is trading at a lower value than the spider in the United States, you
12 can sell the spider in the United States and buy the spider in Europe while
13 those markets are open. Knowing that at the end of the day they will zero
14 out because the calculations will be done at the same time.

15 You couldn't do that if the European spider was being -- if the net asset
16 value of the European spider was being calculated after the European
17 markets close. So with respect to Claim 2, Claim 2 has the step of
18 calculating in there, which is clearly not a recording step. It further defines
19 the second step of Claim 1, but the Examiner still had not shown any
20 propensity to want to allow even that claim.

21 JUDGE LORIN: Thank you, Counsel. Would you like to speak a moment
22 on the 112 rejection?

23 MR. MALONEY: The 112 rejection -- I found it rather difficult to really
24 follow the Examiner. In many cases the Examiner is just asking us to throw
25 willy-nilly into the claims limitations which either do not belong in the
26 claims or make the claims extremely narrow. Narrower than we feel are

1 required. For example, getting back to this idea of recording, the Examiner
2 talks about the recording step as a conclusion. We don't view that as a
3 conclusion. We view that as a positive step that has to be executed by the
4 method, for example, in Claim 1; or, conversely, by instructions that are the
5 subject of the computer program claims. The Examiner has an issue with
6 respect for an amount of cash owed. The Examiner again discusses when
7 and why cash would be owed. Again, those things are all described in the
8 specification and is the subject of some of the pending claims, but it's not
9 really needed to distinguish these claims over the prior art. Because, clearly,
10 when you look at Strauss, Strauss doesn't handle cash in the way that Claim
11 1 handles cash. Therefore, what we recite in Claim 1 should be sufficient.
12 The real question comes with respect to 112 second paragraph is whether a
13 person skilled in the financial arts could understand what is being claimed in
14 Claim 1. I submit there would be no problem understanding what is being
15 claimed in Claim 1 without looking at the specification. The Examiner
16 complains about the phrase "substantially the same basis," specifically about
17 the word "substantially." In our view the word "substantially" lends a degree
18 of tolerance to the features in order to prevent inconsequential changes to the
19 basket of securities in order to avoid literal infringement.
20 I believe, you know, these tolerances -- where these tolerances would lie
21 would easily be ascertained by the prospectuses for each particular product.
22 For example, when you look at a prospectus for the S&P 500 spider, when
23 they discuss delivering a basket of securities, they allow for small, minor
24 variations in those baskets, as does many other indices because sometimes
25 all the instruments in those baskets may not necessarily be available.

1 Also, the other factor which is described in the specification is that since the
2 whole point of these inventions is to make these two funds arbitragable, you
3 really could not vary the basis of the creation unit for the first fund to the
4 point where it would no longer be arbitragable against the second fund.

5 There are many other things here, like net asset value. The Examiner
6 complains about "the net asset value". My position is that these funds have
7 but one net asset value per day, and it makes no sense to talk about a net
8 asset value. I think it would make it more confusing.

9 JUDGE LORIN: Okay. Counsel, any further remarks?

10 MR. MALONEY: Not on this one. I have the other one at 1:30, so do you
11 want me to call you back?

12 JUDGE LORIN: I'd like that. Counsel, there is one more question.

13 JUDGE MOHANTY: I have a question about Claim 1. Your preamble is
14 drawn to a method of producing shares of a first fund.

15 MR. MALONEY: Right.

16 JUDGE MOHANTY: Where is that exactly in the claim? I see recording
17 and recording. Is the creation unit basket something that --

18 MR. MALONEY: Yeah, the way the shares are produced are recording
19 delivery of the shares in the first fund with the shares in the second fund to
20 account for the cash. So once the agent's computer, if you will, records the
21 delivery of these shares, again in a message, along with the shares in the
22 second fund; that, in effect, is the product. You know, it's a data structure
23 residing in the computer of the agent that says we delivered a creation unit
24 basis of shares in this first fund to that particular market participant, and we
25 delivered them a number of shares in a second fund to account for the cash
26 that we owed them.

1 JUDGE MOHANTY: So the shares are actually produced by the delivery
2 into some computer storage?

3 MR. MALONEY: Yeah, basically, that second step, if you will, of Claim 1.
4 The first step of Claim 1 involves receipt of the creation unit basket of
5 securities, and then there's the intermediate step, if you will, which is
6 actually Claim 2, which talks about figuring out the amount of cash that's
7 owed. Once you get the securities and amount of cash and convert that cash
8 into shares of the second fund and you record that fact, that is, in effect, the
9 product as far as the agent is concerned. They would send a message out to
10 the market participant's computer saying they now have 50,000 shares of the
11 European spider, for example. The essence of this invention is captured in
12 those two steps.

13 JUDGE LORIN: No further questions.

14 MR. MALONEY: Shall I call you back at 1:30?

15 JUDGE LORIN: Yes, sir.

16 MR. MALONEY: Thank you.

17 Whereupon, the proceedings at 1:25 p.m. were concluded.

18